

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LICKING VALLEY RURAL)	
ELECTRIC COOPERATIVE CORPORATION, INC.)	
FOR AN ADJUSTMENT TO ITS RETAIL ELECTRIC)	CASE NO. 94-393
POWER TARIFFS)	

O R D E R

On December 2, 1994, Licking Valley Rural Electric Cooperative Corporation, Inc. ("Licking Valley") filed an application to reduce its rates for retail electric service by \$862,989 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Licking Valley's customers a decrease in power costs proposed by Licking Valley's wholesale power supplier, East Kentucky Power Cooperative, Inc. ("East Kentucky").¹ The decrease in power costs proposed by East Kentucky became effective January 1, 1995, subject to further modification, and Licking Valley's proposed rates became effective simultaneously under the same condition.

Intervening in this matter was the Attorney General of the Commonwealth of Kentucky, by and through his Public Service Litigation Branch ("AG"). A public hearing was held April 27, 1995 at the Commission's offices in Frankfort, Kentucky.

¹ Case No. 94-336, The Application of East Kentucky Power Cooperative, Inc. for an Adjustment to Its Wholesale Power Tariffs.

On July 25, 1995, the Commission approved a rate decrease for East Kentucky which was greater than it had proposed. Consequently, Licking Valley's power costs will decrease by an additional \$185,258 annually for a total decrease of \$1,048,247 annually. The manner in which this total decrease is passed on to Licking Valley's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Licking Valley proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Licking Valley utilized an "equal percentage of revenue" methodology which provides all classes of retail customers the same percentage reduction in rates. This approach results in a straight pass-through of the East Kentucky decrease with no change to Licking Valley's existing rate design and no impact on its financial condition. Licking Valley was one of three customers of East Kentucky utilizing this methodology while fourteen others utilized the "equal reduction per Kwh" methodology.

The AG agrees with Licking Valley that the decrease should be allocated on an equal percentage of revenue approach. The AG contends that this is the most equitable approach and its use here, in the absence of a cost-of-service study, is analogous to its use by the Commission in general rate cases when no cost-of-service studies are acceptable for revenue allocation purposes.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the "equal reduction per Kwh" approach should be utilized for allocating the

decrease to retail rate classes for the following reasons. (1) The wholesale rate decrease from East Kentucky consists of decreased energy charges (per Kwh); therefore, an equal reduction per Kwh is a reasonable approach for the retail pass-through of the wholesale power cost decrease. (2) When a change in retail rates is caused by a change in only one expense item, purchased power, it is neither necessary nor appropriate to use a "percentage of revenue" allocation methodology. The Commission has at times utilized such a methodology where revenues are adjusted to reflect changes in multiple expenses. Here, however, revenues are being changed to reflect only one expense, purchased power. Under these circumstances, it is logical and reasonable that a change in cost be identified and reflected in the resulting change in retail rates.


IT IS THEREFORE ORDERED that:


1. The rates in Appendix A, attached hereto and incorporated herein, are approved for service rendered on and after the date of this Order.

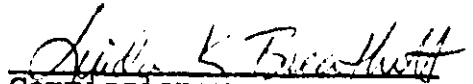
2. Within 20 days of the date of this Order, Licking Valley shall file with the Commission revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 26th day of July, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 94-393 DATED JULY 26, 1995.

SCHEDULE A
RESIDENTIAL, FARM, SMALL COMMUNITY HALLS AND
CHURCH SERVICE

SCHEDULE B
COMMERCIAL AND SMALL POWER SERVICE

SCHEDULE LP
LARGE POWER SERVICE

SCHEDULE LPR
LARGE POWER RATE

Energy Charge \$.035655 Per KWH

SCHEDULE SL
(SECURITY LIGHTS AND/OR RURAL LIGHTING)

Monthly Rate:

Service for the unit will be unmetered and will be a 175 watt mercury vapor type at \$5.95 each, per month.